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Economic Impacts of RSA-Owned Investments on Alabama

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Center for Business and Economic Research
Culverhouse College of Commerce and Business Administration
The University of Alabama

Executive Summary

- This study presents the economic and fiscal impacts on the state of Alabama of the 2007 operating and 2002-2008 construction activities of The Retirement Systems of Alabama (RSA)-owned investments in the state. RSA provides pension benefits to retirees through the Employees' Retirement System (ERS), the Judicial Retirement Fund (JRF), and the Teachers' Retirement System (TRS). Contributions from the state and members are invested in various financial instruments and assets in order to provide benefits.
- The economic impacts focus on output, earnings, and employment. Output refers to the gross domestic product (the value of goods and services produced in Alabama [ALGDP]) for the region of focus, the state of Alabama in this case. Fiscal impacts presented are conservative because they comprise income and sales taxes only; other taxes and fees (e.g., property, utilities, rental/leasing, alcoholic beverages, cigarette and tobacco, insurance premium, lodgings, driver's license fees, and auto title and license fees, and other personal property taxes) are not covered.
- The RSA-owned investments in Alabama are diverse, involving at least 14 primary recipient companies in various manufacturing and service sector industries, with activities in many different parts of the state for the period considered in this report. Capital expenditures over the 2002-2008 period totaled \$854.3 million. Operating expenditures in 2007 by the companies were nearly \$1.6 billion and included a \$245.4 million payroll for 5,836 workers.

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Sometimes it is OK to be Average

By David G. Bronner

I agree with all my critics over the years who said I am not as "Wall Street Smart" as some supporters and national media have portrayed me. But I strongly disagree when these critics say something is very wrong if the RSA is slightly below the national average in investment performance. The RSA outperforms the national average in some years and underperforms in other years. Our last 10-year investment performance is 5.2% compared to the national average of 5.9%. When compared to the national average of -14.7% this past year, RSA's performance of -15.3% amounts to a difference of about ½ of 1%.

There is a logical answer to why nothing is wrong with RSA investments. The first 15 years of my 30+ years with the RSA was spent trying to increase our funding rate of 25% into a safety zone. The RSA actually passed 100% funding just before the first market crash of this decade in 2001. The second and current market crash has punished everyone in the world. We will all be dealing with that for years to come.

By taking over a woefully underfunded system, my philosophy was simple: The stronger the RSA could make Alabama, the stronger the RSA could become. Included in this *Advisor* is the Executive Summary of the University of Alabama study on the impact of RSA investments on Alabama. Alabama would not be where it is today without these investments as documented by the study.

Does anyone really believe that tourism would grow from a \$1.8 billion business to \$9.3 billion without RSA investments and free advertising, which would have cost \$670 million? Does anyone with common sense not understand the importance of funding industry and jobs across Alabama? Does anyone really believe that Montgomery and Mobile would look like they do now or prosper as they do today without the RSA?

I will spend whatever time the good Lord gives me to continue to improve Alabama. But make no mistake, it is very difficult. The RSA can invest in a New York City building with a return of \$54 per foot for rent, while receiving \$20 per foot for an Alabama building. We build fantastic hotels that get 50% of the room rate if they were located elsewhere. Because of this, I put an unbelievable amount of pressure on my professional staff and me to consistently outperform the world in other investments outside Alabama in order to be about average. ■

Editorial: Mobile Press-Register

Gambling taxes can't rescue the schools

Legislators would do well to avoid focusing on a single means of increasing revenue, including a recent proposal to squeeze more out of gambling.

Alabama Education Association chief Paul Hubbert, Rep. Richard Lindsey, a Democrat from Centre, and Sen. Hank Sanders, a Selma Democrat, make a good point about increasing the gambling taxes. But it would be risky to put too much faith in gambling to pull the state out of the huge hole predicted for the education budget for 2009-2010.

Education funding already took a big hit this year, and proration will add to the pain. Additional cuts next year could put Alabama's public schools, colleges and universities in dire straits, undermining improvements in primary and secondary education that the state has achieved over the past decade.

Rep. Lindsey and Sen. Sanders — the heads of the Legislature's education budget committees — believe that next year's reduction in the education budget

could be a whopping \$600 million to \$800 million below the \$6.3 billion appropriated this year. That would put state spending for education at what it was four years ago.

Current gambling taxes can't make up a loss that nears \$1 billion. Dog track receipts — the state's only tax on gambling — provided a paltry \$2.7 million last fiscal year.

The state has some other gambling that it could tax. There's electronic bingo, which exists at the dog tracks and other sites across the state.

However, Alabama can't tax Native American casinos for their electronic bingo machines because they're protected from state taxes by federal law.

Truth is, it's unlikely that the state's current level of gambling could provide enough tax revenues to fill education's coffers. Certainly, legislators could allow additional gambling in the state and tax it. But that issue has been fought to no avail in the past.

Even if Rep. Lindsey, Sen. Sanders

and the politically astute Paul Hubbert could persuade legislators to go along with other forms of gambling (slot machines, a lottery or casinos), voters would have to approve any constitutional amendment. And past efforts suggest that's a long shot.

A better course for legislators would be to put all types of revenue enhancers on the table, especially tax reform. The reason education funding is in such trouble is because it depends heavily on sales taxes. When the economy stalls, as it has now, revenues dry up.

That's why legislators need to look at Alabama's property tax, which is the lowest in the nation. Even if legislators doubled it, Alabamians would still pay less than their neighbors in Mississippi.

The long-term solution to providing properly for education lies with property taxes, and that's where legislators should spend the bulk of their energies.



Freeney's Bell at Renaissance Montgomery

A new tradition at the Renaissance Montgomery Hotel & Spa at the Convention Center began on December 19, 2008, with the ringing of a replica of the first bell used at Freeney's Bell Tavern located on this same site in 1821. Early settler Clement Freeney built the Montgomery Hotel, with a bell to toll the time of day, to mark special occasions, to sound an alarm and to invite people to come in for a drink or dinner on this corner. The bell was such an immediate success that townsfolk began calling the hotel the Bell Tavern or Freeney's Bell Tavern.

The most momentous occasion occurred with the visit of the Marquis de LaFayette, the French hero of the American Revolution, to Montgomery, April 3-5, 1825. To honor his visit, a Grand Ball took place in the large upstairs room of Freeney's Bell Tavern on the night of April 4.

The new bell, located outside The Exchange Bar, will honor the history of this Montgomery location and Freeney's legacy by ringing each day at 5:00 p.m. to mark the end of the workday. It will also ring on significant occasions impacting Montgomery.

In the 21st century, this important, historic Montgomery corner has come full circle with the Renaissance Montgomery Hotel & Spa at the Convention Center. The Renaissance provides a venue for the same activities as did Freeney's Bell Tavern: food and drink for local folk and travelers, plays and entertainment for enthusiastic audiences, and a ballroom where ladies still put on their finest attire to dance the night away! ■



Dr. Ed Bridges, Director Department of Archives and History; Jim Buckalew, President of Alabama Real Estate Holdings; and Dr. David G. Bronner, CEO of RSA, ring the bell at the Renaissance Montgomery.

Economic Impacts

continued from page 1

- The 2002-2008 \$854.3 million capital expenditures had statewide impacts of \$1.947 billion in output, \$620.9 million in earnings to Alabama households, 19,225 direct and indirect jobs, and \$42.9 million in income and sales taxes; \$20.4 million in state income taxes, \$10 million in state sales taxes, and \$12.5 million local (county and city) sales taxes.
- The 2007 operating activities yielded statewide impacts of \$3.3 billion in output (2 percent of the \$165.8 billion 2007 Alabama GDP), \$578.1 million in earnings, and 14,056 jobs (0.7 percent of the state's 2007 nonagricultural employment). The associated fiscal impacts summed up to nearly \$40 million; \$19 million in state income taxes, \$9.3 million in state sales taxes, and \$11.6 million local sales tax receipts.
- The only publicly available retirement systems investment impact study was conducted by the Applied Research Center at California State University, Sacramento in 2007 and showed that investments made by retirement systems in their home states can have considerable economic and fiscal impacts on those economies.
- The economic and fiscal impacts presented in this report are statewide. All 67 Alabama counties, in one way or another, benefit from the above-mentioned RSA investments and other RSA economic development efforts. Impacts of benefit payments made by RSA are not considered in this report.
- As part of its community and economic development activities, RSA has provided more than \$670 million in advertisement benefits that have contributed to growing Alabama tourism into a \$9.3 billion industry from \$1.8 billion. The ad benefits comprise \$30 million per year in TV for 13 years, \$25.4 million per year in print for 11 years, and \$362,400 per year in billboards for the last 3 or 4 years.

...For the 2007 operating and 2002-2008 construction periods, RSA investments in the Alabama economy have been

through diverse goods-producing and service-providing industries. Manufacturing industries represented include aircraft and motor vehicle parts, wood products, and metals production. Other direct RSA investment industries include newspaper publishing, radio and TV broadcasting, advertising, real estate, offshore oil and gas support services, computer and technology services, hotels and resorts, and recreational sports. Companies that are the primary recipients of the RSA investments for the periods of interest are shown in Table 1. They have activities in many different parts of the state. Not all the companies were operating in 2007 and not all of them reported capital expenditures for the 2002-2008 period.

Table 1. 2007 Primary RSA Investment Receiving Companies

Alabama River Group, Inc.
Bell Microproducts
Community Newspaper Holdings, Inc.
Daniel Corporation
GKN Aerospace Services Alabama
Magic Media
National Alabama Corporation/National Steel Car
Navistar Diesel of Alabama, LLC
Navistar Big Bore Diesels, LLC
PCH Hotels and Resorts
Raycom Media
Sunbelt Golf Corporation
Signal International
Wise Metals

...There are many other companies and economic activities that RSA has been involved with in Alabama besides those listed in Table 1. These companies again are located in many different parts of the state. Some notable ones are:

- CIBA-Geigy Chemical Company in Mobile
- Dole Foods in Birmingham
- Drummond Company in Birmingham
- Dynamit Nobel Chemical Company in Mobile
- EADS/Airbus in Mobile
- Gulf Coast Exploration and Science Center & IMAX in Mobile
- Kvaerner Oilfield Products in Mobile
- Mercedes Benz U.S. International in Tuscaloosa

- Southwire Company in Heflin
- Space Booster in Huntsville
- SSAB Steel in Mobile
- U.S. Steel in Fairfield
- Wal-Mart distribution center in Cullman....

If you would like to read the entire report, visit our Web site at www.rsa-al.gov. ■

The 5th Four Diamond Award



When the RSA purchased its first hotel in 1999, The Grand Hotel in Point Clear, there was only one Alabama hotel that had a AAA Four Diamond Award. Even The Grand had lost its four diamond rating.

Ten years later, the RSA has 5 Four Diamond hotels with the newest bestowed on the Renaissance Montgomery Hotel & Spa at the Convention Center. The Montgomery hotel was also selected in December to receive the "Judge's Award" for the Best of 2008 by *South Central Construction* magazine.

The RSA now has five of its eight hotels with this outstanding rating: Marriott Shoals Hotel & Spa; Renaissance Ross Bridge Golf Resort & Spa; Renaissance Montgomery; Grand Marriott Resort Golf Club & Spa; and Battle House, a Renaissance Hotel.

The RSA has provided, on certain dates, our members with the opportunity to enjoy their top-rated hotels at a discount rate. We hope you are able to use the hotels when your plans call for travel in the state. ■

ENJOY YOUR WINTER/SPRING
A Special Deal
FOR RSA MEMBERS

**The Battle House,
A Renaissance Hotel – Mobile – \$89**

- Feb. 1-5, 8-12, 16-18, 25-26
- Mar. 1-4, 8-11, 15-18, 22-25, 29-31
- Apr. 1-5, 12, 19-23, 26-28

**The Renaissance Riverview Plaza –
Mobile – \$79**

- Feb. 1-5, 8-10, 25-26
- Mar. 1-4, 8-11, 15-17, 22-25, 29-31
- Apr. 1-5, 12-14, 19-23, 26-30

Marriott Grand – \$89 plus a 14% resort fee

- Feb. 1-8, 15-18, 21-28
- Mar. 1-18, 22-25, 28-31
- Apr. 2-9, 12, 19-22, 26-30

Marriott Grand – RSA Golf Package – \$169

Ask for code – LOCD

Includes: Deluxe Room, One Round of Golf for Two People.

Call for Tee Times after booking package

- Feb. 1-8, 15-18, 21-28
- Mar. 1-18, 22-25, 28-31
- Apr. 2-9, 12, 19-22, 26-30

Marriott Shoals – Florence – \$79

- Feb. 2-3, 5-9, 15-17, 22
- Mar. 1-2, 7-8, 20-22, 29-30
- Apr. 3-6, 19-20, 30

Renaissance Ross Bridge – Hoover – \$89

- Feb. 1-3, 7-12, 15, 18-28
- Mar. 1-5, 8-17, 22-31 • Apr. 5-14, 22-28

Opelika Marriott – \$79

- Feb. 1-5, 8, 11-12, 15, 22-28
- Mar. 1, 4, 8-16, 19-25, 31 • Apr. 1-14, 19-29

Prattville Marriott – \$79

- Feb. 1-9, 11-12, 16-17, 19, 21-26
- Mar. 1-15, 17-19, 22-26, 29-31
- Apr. 4-7, 9-14, 19-23, 26-30

Renaissance Montgomery – \$89

- Feb. 1-2, 7, 15, 18, 21 • Mar. 7-8, 13-14, 21-29, 31
- Apr. 1, 5, 9-13, 19, 21-23

RSA Spa Package – \$159

Ask for code – LOCD Includes Deluxe Room

- Feb. 18 • Mar. 24-26, 31 • Apr. 1, 9, 21-23

*Book early because the rooms are limited at these special rates.
These rates are not applicable to groups or conventions.*

Code: RABM, 800-228-9290

Spending Rise for Health Slows

By Robert Pear, *New York Times*

WASHINGTON — National health spending grew in 2007 at the lowest rate in nine years, mainly because prescription drug spending increased at the slowest pace since 1963.

But other types of health spending rose at a brisk pace, pushing the total to \$2.2 trillion, or 16.2 percent of the gross domestic product, a record. Spending averaged \$7,421 for each person. Total health spending rose 6.1 percent, compared with a 6.7 percent increase in 2006. . . . ■

How the Money Was Spent

National health spending rose to \$2.2 trillion in 2007.

	SHARE OF SPENDING	SPENDING GROWTH	
		'06-7	'05-6
Total		+6.1%	+6.7%
Hospitals	31%	7.3	6.9
Doctors and Clinics	24	6.4	6.3
Prescription drugs	10	4.9	8.6
Nursing homes and home health	9	6.7	5.8
Dental services, other personal care	7	5.5	6.8
Administration	7	3.6	8.4
Research and construction	6	4.8	4.9
Government public health activities	3	6.4	6.5
Medical products (other than drugs)	3	3.7	3.2

Source: Centers for Medicare and Medicaid Services



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**Report — Street Lights that are Out — to the Power Company!
Report — Weedy Lots — to the Mayor!**